


ESG TERM SHEET CLAUSE TEMPLATE

I. Minimum requirements (early stage):

After closing, the Company and the Founders commit to:

- a. **Materiality Assessment:** Conduct a materiality assessment during due diligence with the Fund and post-investment to identify key focus areas for ESG initiatives. This will include an evaluation of internal practices and the external impact of the Company's business model, services, and products.
- b. **ESG Strategy, Policy, and Management Systems:** Based on the materiality assessment, the Company will adopt an ESG policy and establish foundational management systems or processes to integrate ESG considerations into operations. A designated employee with sufficient seniority and capacity will be responsible to oversee adherence to ESG-related policies. Bi-annual updates on progress are expected to the Board and/or lead investors.
- c. **Diversity, Equity, and Inclusion (DEI):** Strengthen DEI by leveraging inclusive leadership, equitable governance, and diverse representation, embedding these principles in investment and organizational decision-making, and advancing relevant initiatives.
- d. **ESG Reporting and Oversight:** Report to the board / lead investors (in the absence of a board) on ESG efforts and progress on the above points at least once annually. Additionally, the Company will agree on a minimal reporting framework to be provided to the Fund and a process for promptly notifying the Fund of all significant ESG-related incidents

 Depending on your specific needs and contexts, you can use and adapt the template for a Shareholders' Agreement (SHA) or a Side Letter (SL).

II. Extended Requirements (Series A upwards):

After closing, the Company and the Founders commit to:

- a. **Materiality Assessment:** Conduct a materiality assessment during due diligence with the Fund and post-investment to identify key focus areas for ESG initiatives. This will include an evaluation of internal practices and the external impact of the Company's business model, services, and products.
- b. **ESG Policy, Strategy, and Management Systems:** Based on the materiality assessment, the Company will adopt an ESG policy and establish foundational management systems or processes to integrate ESG considerations into operations. A designated employee with sufficient seniority and capacity will be responsible to oversee adherence to ESG-related policies. Bi-annual updates on progress are expected to the Board and/or lead investors. The following ESG areas should be covered:
 - Environmental management (e.g. sustainability strategy, climate change risks mitigation, SDG alignment)
 - Work environment and team culture (e.g. anti-discrimination and equal opportunities, health and safety, human rights and labour practices)
 - Data privacy and security: (e.g. cybersecurity, responsible AI, customer and employee data protection)
 - Supply chain and third-party risks: (e.g. procurement, supplier labour practices)
 - Social risks: (e.g. stakeholder consultation, grievance redressal)
 - Business integrity and corporate governance: (e.g. anti-corruption, anti-bribery, whistleblowing, tax compliance)
- c. **Climate:** Within the first 12 months after closing, assess the Company's climate impact based on risk exposure and sector relevance. For companies with significant environmental risks or high energy consumption, establish an approach to measuring and managing emissions where feasible, such as the Company's carbon footprint (at least Scopes 1 & 2, with an estimation of Scope 3). The Company will establish clear actions to reduce emissions, with an emphasis on offsetting unavoidable emissions.
- d. **Diversity, Equity, and Inclusion (DEI):** Demonstrate commitment to diversity, equity, and inclusion (DEI) by leveraging inclusive leadership practices and governance structures, including the board of directors, to advance equity initiatives. Establish relevant DEI key performance indicators (KPIs) and targets within one year of the investment.
- e. **ESG Reporting and Oversight:** Report to the Board on ESG efforts and progress on the above points at least once annually. Additionally, the Company will agree on an ESG reporting framework to be provided to the Fund.
- f. **ESG Responsibility:** Appoint a team member with responsibility and ownership of ESG issues within six months of closing. This individual will be responsible for co-creating and overseeing the Company's ESG strategy.
- g. **Incident Notification:** Establish a process for promptly notifying the Fund of all significant ESG-related incidents.